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BACKGROUND REPORT

JAN 7 1963

THE SUSSMAN REALTY CORPORATION

LIMITED



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INTRODUCTION

H. B. Sussman Associates Limited began operations four years ago with the object of acting as an agent in the purchase and sale of income producing properties. As the company grew it expanded into creating investment opportunities as outlined in the accompany brochure. The immediate object of the company was to demonstrate management's ability to earn substantial profits in the real estate industry. The second objective of the company's long range plans was to obtain capital to allow the company to buy income producing real estate as a principal with the purpose of reselling these properties advantageously. The resale of these properties will be to one or many investors and it is the company's plan to become Canada's first nationwide syndicator of prime real estate. Although the syndication of real estate has developed into a vigorous industry, (two billion dollars in 1961 in the United States) the market in Canada is untapped.

THE INDUSTRY

The past few years have witnessed, both in Canada and the United States, a sharp increase in the number of publicly-owned real estate corporations. Although these enterprises are generically termed real estate companies, they actually represent a wide diversity of activities within the real estate field.

Broadly defined, the basic types of companies in the real estate fields include:

1. Companies heavily involved in home construction, mainly in the building of large residential developments.
2. Companies which realize the majority of their income from the construction of office and apartment buildings in major metropolitan areas. Frequently such companies retain these properties for income.
3. Companies which engage in the purchase and ownership of a wide variety of existing income producing properties throughout the country. These companies usually are also interested in construction, resale and other activities as supplements to their prime function of ownership of income producing property.

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the object of acting as an agent in the purchase and sale of income producing

properties. As the company grew it expanded into creating investment

opportunities as outlined in the accompanying prospectus. The immediate object

of the company was to demonstrate management's ability to earn substantial

profits in the real estate industry. The stated objective of the company's

long range plans was to obtain capital to allow the company to buy income

producing real estate as a principal with the purpose of reselling same

properties advantageously. The resale of these properties will be to one or

many investors and it is the company's plan to become Canada's first national

indicator of prime real estate. Although the acquisition of real estate has

developed into a major activity, the company's primary objective remains the

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they actually represent a wide diversity of activities within the real estate

field.

Basically divided, the basic types of companies in the real estate

field include:

1. Companies heavily involved in real estate development, acting in the

creation of large residential developments.

2. Companies which realize the majority of their income from the

operation of office and apartment buildings in major metropolitan

areas. Frequently such companies retain these properties for income.

3. Companies which engage in the purchase and ownership of a wide

variety of real estate properties, including commercial, industrial, and

residential and other activities as appropriate to their prime business

of ownership of income producing property.

The Sussman Realty Corporation and its wholly owned subsidiaries function primarily in the third category as outlined above, with the exception that the company at the present time owns only one income producing property as a permanent investment.

It should be recognized that real estate is a limited commodity and that its major attribute is uniqueness in that one piece is not fungible for another. As the economy has grown and as needs have expanded, land and buildings have increased in value notwithstanding the real depreciation of the building. Consequently, more and more investors have been seeking real estate as a form of investment. Sussman Realty has provided a service of developing investment opportunities to meet the needs of the investor.

THE COMPANY

As outlined in the accompanying brochure, the company is involved in numerous aspects of the real estate industry.

1. Through its personnel and facilities Sussman Realty Corporation offers a complete real estate service, mainly to corporations and large investors.
2. It secures and originates investment opportunities in real estate for investors in Canada, Europe and the United States, with particular emphasis on "sale-lease back" transactions.
3. It carries on a conventional real estate business as an agent on a commission basis of buying and selling income producing properties such as shopping centres, office buildings and department stores in which are located major responsible tenants occupying space on a rental basis.
4. On behalf of clients, the company locates and assembles suitable land on which a retail outlet or department store may be located, finds a purchaser who will purchase land on the basis of a lease by the tenant company, assists, if necessary, in arranging mortgage financing of the buildings to be erected on the land and, in certain cases, arranges for construction of the building usually to specifications laid down by the company which will occupy the building.
5. The company acquires for clients such as Ontario Cleaning Carousels, numerous locations for the company's stores. Some of these locations will be in existing shopping centres and others will be free standing buildings where Sussman Realty will be required to acquire the land, arrange for construction, find an ultimate purchaser and assist in arranging mortgage financing.

Sussman Realty has just entered a new phase of its development in that it is holding income properties for its own account. In one new venture, Sussman Realty Corporation and Consolidated Building Corporation are joint owners in Craigowan Estates Limited, a development, initially, of 161 garden court apartments in Victoria, British Columbia. Sussman Realty, with no cash investment in the project, was able to obtain a 50% equity in this development with Consolidated Building for its efforts in assembling the proposition up to the point where construction has commenced. In addition, they have assisted in arranging the permanent and interim financing, and are participating in the continuing management of this project. It is not the present objective of the company to build a large portfolio of income producing real estate as a source of annual revenue. However, if similar propositions become available where the company can acquire an interest or all of the prime piece of real estate without a material cash investment, they will continue to do so. Primarily, however, the company's intention is to acquire prime real estate with the objective of reselling these properties as soon as advantageous sales can be made.

The creativeness of management becomes most apparent in its ability to purchase and resell properties advantageously. It is in this area that a skilled management can create investment opportunities and arrange the transaction to meet the many and varied demands of both buyer and seller. It is also in this area that capital is necessary for taking advantage of the many quickly developing situations which are an earmark of the real estate field. Previous to the recent financing Sussman Associates could act only on an agency basis; the new capital will allow the company to act as a principal in the purchase of income producing property.

The profit potential which exists in the proper purchase and resale of income producing properties is demonstrated in Exhibit One below:

EXHIBIT ONE

Total Cost of Building (AAA-1 tenant on net net lease)	\$1,050,000
Mortgage - 6-1/2%, 25 year amortization	\$ 600,000
Equity Investment	\$ 450,000
Annual Rental	\$ 88,240
Interest and Principal on mortgage	\$ 48,240
Net Annual Return to holder of equity position	\$ 40,000
Rate of Return on Investment $\frac{\$ 40,000}{450,000}$	8.9%
If building sold to yield $(\frac{40,000}{500,000}) = 8\%$ the equity will be worth	\$ 500,000

The building with an AAA-1 tenant on a net net lease (tenant pays all costs of maintenance plus taxes) will yield 8.9% on the \$450,000 equity investment. If Sussman Realty can sell the building to yield the investor an 8% return, the building's equity can be sold for \$500,000 leaving a profit of \$50,000. The investor will not only obtain an annual cash return of \$40,000 but also an added return through amortization of the mortgage.

Sussman Realty will sell income producing properties to one investor or to many. The desire of the small investor to place capital into real estate could not be satisfied until the syndicating of the property was developed. Syndication of properties in the United States has reached a level of maturity where in 1961 two billion dollars was invested in real estate through this method. In Canada, syndication has not been attempted on a national level nor have the few properties that have been syndicated been of good quality with fixed yields. Sussman Realty plans to syndicate properties with AAA-1 tenants on long leases. This type of property will give the investor liberal income plus capital appreciation through amortization of the mortgage. The company will develop profits by buying the properties advantageously with room for both an ample profit to the company and a fair return to the investor.

FINANCIAL DATA

Capitalization of The Sussman Realty Corporation Limited

	<u>Authorized</u>	<u>Outstanding</u>
3% Cumulative Redeemable Convertible Preference Shares, par value \$2 ea.	125,000 shs.	125,000 shs.
Common Shares without par value	2,000,000 shs.(1),(2)	750,007 shs.

(1) Of which 333,334 common shares will be reserved for conversion of the 7% Secured Sinking Fund Debentures Series A of Sussman Associates, 150,000 common shares will be reserved for issue upon the exercise of share purchase warrants to purchase common shares at a price of \$2.00 per share and 50,000 common shares will be reserved for issue upon the exercise of options granted to employees to purchase common shares at a price of 50¢ per share.

(2) Each 3% cumulative redeemable convertible preference share is convertible up to June 30, 1967, into one common share.

The earnings of the company are as follows:

		<u>Per Share</u>
Fiscal year ending Dec. 31, 1959 (net after tax)	\$ 26,882	3.6¢
Fiscal year ending Dec. 31, 1960 " " "	46,450	6.2¢
Fiscal year ending Dec. 31, 1961 " " "	109,701	14.6¢
Four month period ending Apr. 30, 1962 " "	209,849	28.0¢

Earnings for the year ended December 31, 1962, are estimated to be between \$250,000 and \$300,000 after tax, or between 33¢ and 40¢ per common share.

The bulk of the 1962 earnings occurred in the spring when construction was finished on several projects. At the present time the company is negotiating as a principal on several substantial, (\$2 - \$4 million) income producing properties. The income from these projects will develop in 1963.

The company has in the past earned commission income in the form of promissory notes payable over an extended period of time. This fact was taken into consideration in the recent financing in the indenture provisions of the 7% secured sinking fund debentures due July 15, 1967. The debentures are fully secured at all times by a combination of cash and/or notes receivable. The notes pledged with the trustee cannot mature beyond the maturity date of the outstanding debentures, or in the alternative, if the notes are for a longer period than the maturity, only that portion of the notes due before maturity

date can be utilized for the purpose of acquiring cash from the trustee. For each \$125 of promissory notes of clients pledged with the trustee, the company can withdraw \$100 cash. The cash that is obtained from the trust company is added to the working capital of the company; consequently, the debentures are not only secured specifically by an amount of cash and notes at the Trust Company but also generally by the working capital of all the various companies.

Since an annual sinking fund will retire \$200,000 principal amount of the debentures, the average life of any one debenture is 2.5 years. (The probability of a debenture being retired in the fifth year is equal to the probability of a debenture being retired in the first year.) Below is a table which outlines the yield on the Sussman Debentures at various price levels.

EXHIBIT TWO

<u>Yield at</u>	<u>Taxable Coupon</u>	<u>Non-Taxable Discount per year</u>	<u>Annual Yield Before Tax</u>	<u>Tax at 50% Rate on Interest</u>	<u>After Tax Yield</u>	<u>Yield Necessary before Tax On Investment to Obtain Equivalent Return</u>
\$100.	\$7.00	\$ -	7%	\$3.50	3.5%	7%
95.	7.00	\$ 2.00	9%	\$3.50	5.5%	11%
90.	7.00	\$ 4.00	11%	\$3.50	7.5%	15%
85.	7.00	\$ 6.00	13%	\$3.50	9.5%	19%

The present debenture is convertible at \$3.00 per share if such conversion takes place on or before July 15, 1965; at a price of \$4.00 per share, if such conversion takes place after July 15, 1965 and on or before July 15, 1966; and at a price of \$5.00 per share if such conversion takes place after July 15, 1966 and on or before July 14, 1967. The \$100 debentures (until January 15, 1963) carry ten warrants to purchase shares in Sussman Realty at \$2.00 per share until July 15, 1967.

CONCLUSION

Sussman Realty operates in an area of the real estate industry where profits develop through the ability of management to create investment opportunities. The record of the management is such that it has demonstrated its ability to earn substantial profits by applying techniques that have met the needs of both buyer and seller.

The background of the members of the management group is extremely varied. Some are executives with many years of experience in the real estate industry, others come from fields other than real estate.

In part, the success the company has enjoyed to date results from a commingling of ideas of men from different backgrounds who have developed an efficient, flexible organization.

In the future, profits should develop by applying the same techniques that have proven successful in the past and by entering new markets such as syndication.

